

# The US: A Political Economy in Deficit

Bill Barclay

Chicago DSA and Chicago  
Political Economy Group

## **The deficit we face is a Jobs Deficit.**

**The personal impact of this deficit was perhaps best captured by Jane Addams. In her reflections on her first 20 years at Hull House, she wrote that:**

**“...of all the aspects of social misery nothing is as heartbreaking as unemployment.”**

# There Points

- The most critical deficit facing the US is the lack of jobs
- Curing this deficit requires a federally funded program to create at least 20 million jobs over the next 5 years
- This can be paid for – and the US political economy rebalanced – by:
  - A tax on the trading of financial assets
  - A tax system that recognizes the huge upward redistribution of income that has occurred over the past 35 years

# The New Deal Background

- July 1932 – Democratic Party met in Chicago to nominate a candidate for president
  - Had won presidency only 4 times since 1860
  - 45% of Chicagoans unemployed
    - Over 25% US non-agricultural labor force unemployed
    - Convention issue: wet or dry?
  - After many ballots the party nominated a man known as a “trimmer” who avoided taking stands on issues: Franklin Delano Roosevelt
    - FDR didn’t talk about jobs during his campaign
    - Attacked Hoover for running deficits
- Nov 1932 FDR gets 57% vs Hoover’s 40%

# FDR and Jobs

- Chicago – and the US – unemployed made an impact on FDR
  - Challenged cabinet to put 500,000 “young men” to work by summer (remember this is March)
    - Told by military “a logistic impossibility”
    - Ok, 250,000
      - 290,000 in CCC by June
- FDR was not an economist but he understood two things
  - An economy can be restarted by creating demand
  - Out of work people are politically unpredictable
- CCC was one of many jobs programs created by FDR
  - Some put people to work immediately, e.g., CWA, WPA
  - Others created jobs more slowly, e.g., PWA that used many private contractors

# The Impact of New Deal Jobs Programs

- Brought unemployment down from over 25% in 1932 to 13 – 14% in 1937
  - Except for WWII this is the largest decline in unemployment in any similar period in US history
- Unemployment jumps in 1938 – why?
  - FDR tries to return to balancing the budget and
  - Right wing opposition organizes - Josiah Bailey's (D-NC) *Conservative Manifesto* called for reducing spending and cutting taxes, especially on business
    - Sound familiar?

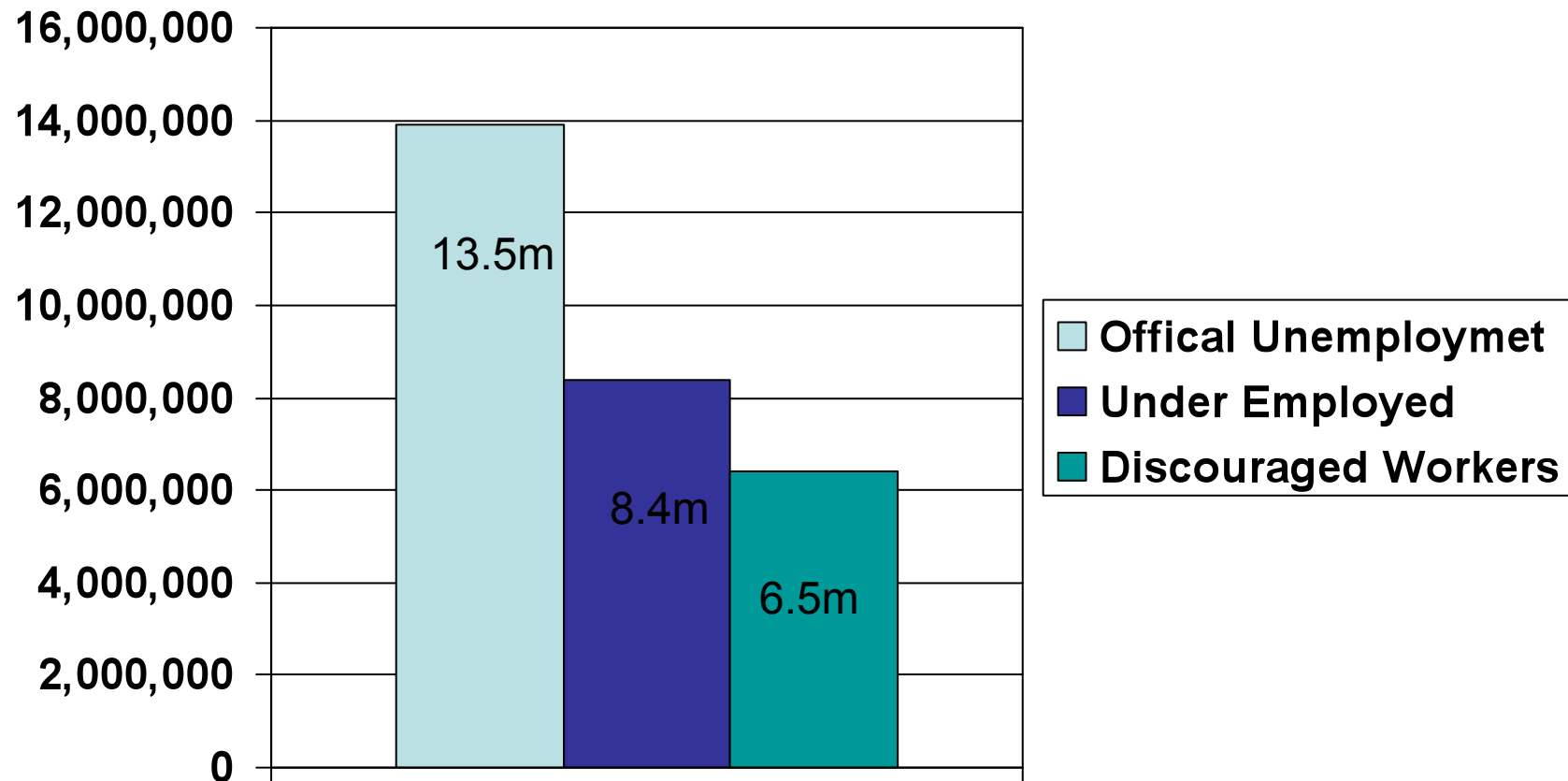
# The Jobs Deficit

How Big? Why?

# The Current Jobs Deficit I: Problems of the Great Recession

- Large numbers of:
  - Unemployed
  - Underemployed
  - Discouraged workers
- Long term unemployment
  - Almost half (45.9%) of the unemployed were long term unemployed (>26 weeks) – record levels

# The Jobs Deficit: March 2011



# The Current Jobs Deficit II: Problems of the Great Recession Inadequate job Creation

- 216,000 new jobs were created in March 2011 vs new labor force entrants of about 115,000
- The monthly average number of jobs created by the private sector in 2010 was 94,000 – but approx 115,000 new workers normally enter the labor force on a monthly basis: we've lost ground
  - We now have over 300,000 fewer employed people than at the end of the Great Recession in June 2009
    - We have the same number of people working as in Nov 2004
  - And over 6 million fewer employed than at the beginning of the Great Recession in Dec 2007
- Where did all these people go?
  - Two places: unemployed (officially) and “not in labor force”

# A Digression: Is Unemployment Structural?

- Recently there has been a proliferation of pundits/politicians/newspapers labeling the unemployment problem as “structural”
  - Bill Clinton – there are jobs out there but workers are not qualified for them
  - Minneapolis Fed Reserve member: “most of the existing unemployment represents [skill] mismatch”
  - Washington Post – Fresno “job” listings vs unemployed
- This “explanation” carries a very significant policy implication
  - No need to job creation via increased demand from government
  - Workers should get more training/go back to college, etc
- Is it likely that millions of workers who were employable 2 – 3 years ago are now not employable?
- What is the technological revolution that has occurred since 2007?

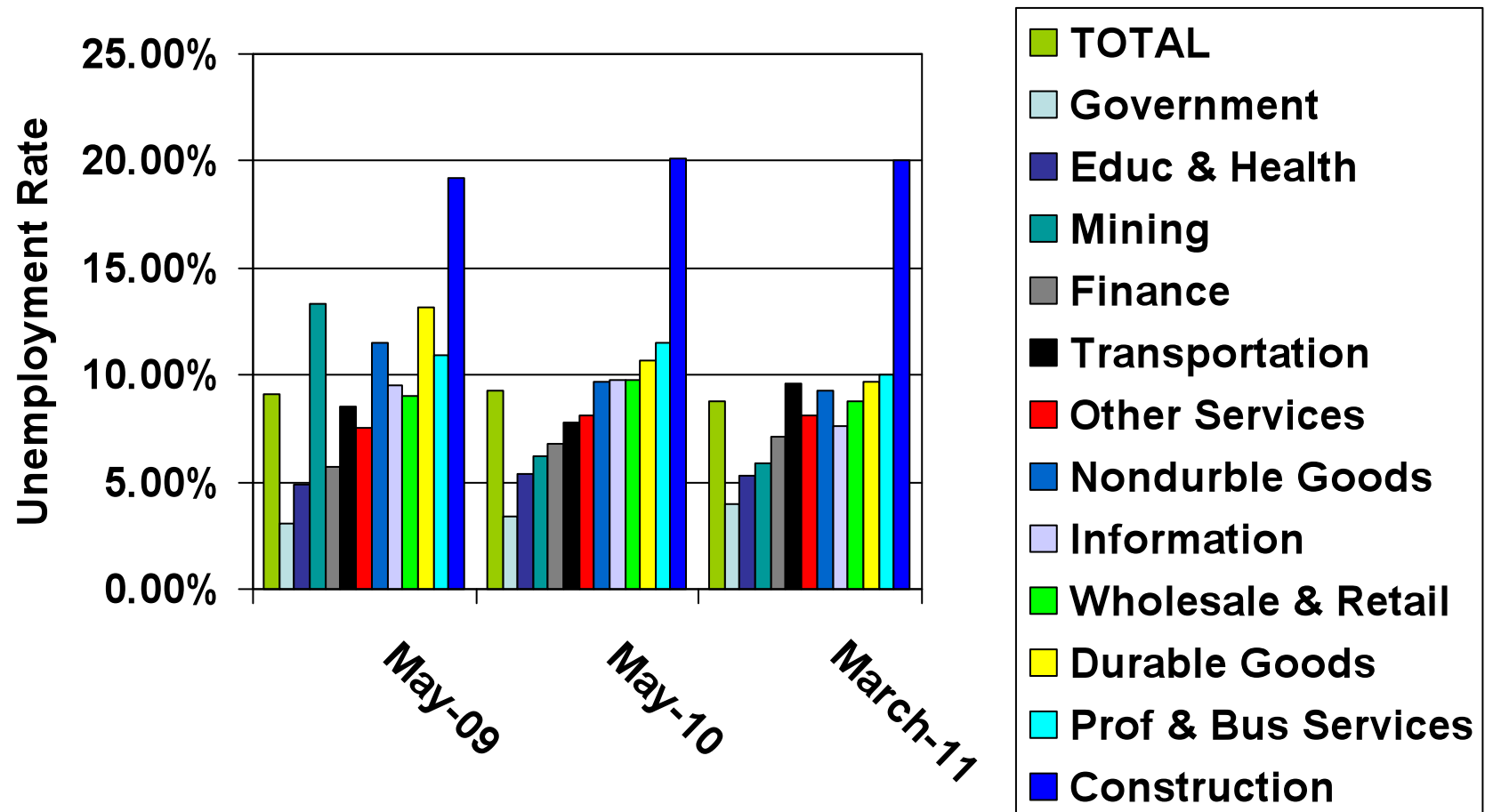
# “Structural” Unemployment: What would it look like?

- This is a matter of evidence - if the “structural” unemployment thesis is correct, what should we see:
  - Some sectors with low unemployment – even a labor shortage - compared to US average
  - Some sectors with rapidly rising wages vs US average
  - Premium for college educated workers increasing
- Does the evidence demonstrate any of this?

# What Does the Evidence Show?

- All sectors in the US (except for mining) show similar ratios of job openings/ workers available to those in prior recessions (<1.0)
  - No evidence that some sectors are facing increased labor shortage
  - Mining jobs are not usually what the “structural unemployment” ideologues have in mind
- Unemployment ratios by educational level have not changed over prior recessions (distributional composition of unemployment unchanged)
  - All educational levels have similar long term/total unemployed ratios
- Premium for college educated vs HS educated has not grown
  - Inequality within educational levels has grown but not between educational levels
  - Pay/productivity gap is similar for college educated and HS educated
- Sum: actual evidence does not support the skill mismatch or structural unemployment thesis
- It is, however consistent with the demand shortfall thesis – there are not enough jobs to go around because there is insufficient demand for goods and services (even if all listed jobs were filled, 80% of unemployed would still be unemployed)

# Who Are the Officially Unemployed?



# The Chicago Political Economy Jobs Program

# The Chicago Political Economy Group's Jobs Program

- Figures on the Great Recession are striking
- However, CPEG started working on a jobs program prior to the Great Recession
- We did so based on our analysis of the longer term trends in the US political economy
  - CPEG identified a long term job creation problem
    - Minorities especially but the problem larger
  - CPEG jobs program is built on 6 principles



chicago political economy group

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**Back to Work:  
The CPEG  
Jobs Program**

## Multimedia

### Powerpoint: Toward a New Political Economy for the U.S.

Released | January 2010

Summary | On January 5th, 2010, CPEG member Ron Baiman gave a presentation entitled "Toward a New Political Economy for the U.S." at the Allied Social Science Association's **Annual Meeting** in Atlanta, GA. **View the powerpoint.**

### Do It Yourself: Interactive Economic Crisis Workshop

Released | December 2009

Summary | Developed and taught at a series of events by CPEG's Bill Barclay, the Economic Crisis Workshop is designed to teach, in understandable terms, how the U.S. arrived at our current economic crisis and to suggest some policies that we could adopt to reverse the economic downturn. **Conduct the workshop yourself.**

### Video: Bill Barclay on Jobs and Reindustrialization

Released | December 2009

Summary | CPEG's Bill Barclay speaks to the Democratic Socialists of America National Convention in Chicago, IL about the CPEG Jobs Program and it's potential effect on our economic future. View the video below or **read the full transcript** of Bill's speech. Video courtesy of Frank Llewellyn/DSA

www.cpegonline.org

DSA/CPEG 2-12-2011

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# CPEG's Principles for a Jobs Program

- In early 2008 CPEG sat down to work on a jobs program – pre the major impact of the “Great Recession”
- Based on our analysis of U.S. structure and dynamics of U. S. political economy we concluded that any effective jobs program had to be based on 6 principles (each elaborated in next slides)
  1. The private economy has failed to generate sufficient number of jobs to meet the needs of our people
  2. Access to the good jobs has been and is unequally distributed across a working population that is internally segmented by race, ethnicity and gender
  3. The lack of jobs and good jobs is not the result of a lack of work to be done
  4. This double failure of the private economy – macro and micro - necessitates government action to insure more jobs and equality of access to these jobs
  5. Because the private economy's failure is long term, the role of the government in remedying this failure must also be long term
  6. Governmental policies created to remedy this failure should be redistributive both in their outcomes and in their financing
- First 5 are empirically demonstrable or logically deducible – and flowed from our analysis of the US political economy (see following slides)
- The 6<sup>th</sup> is a political and economic judgment

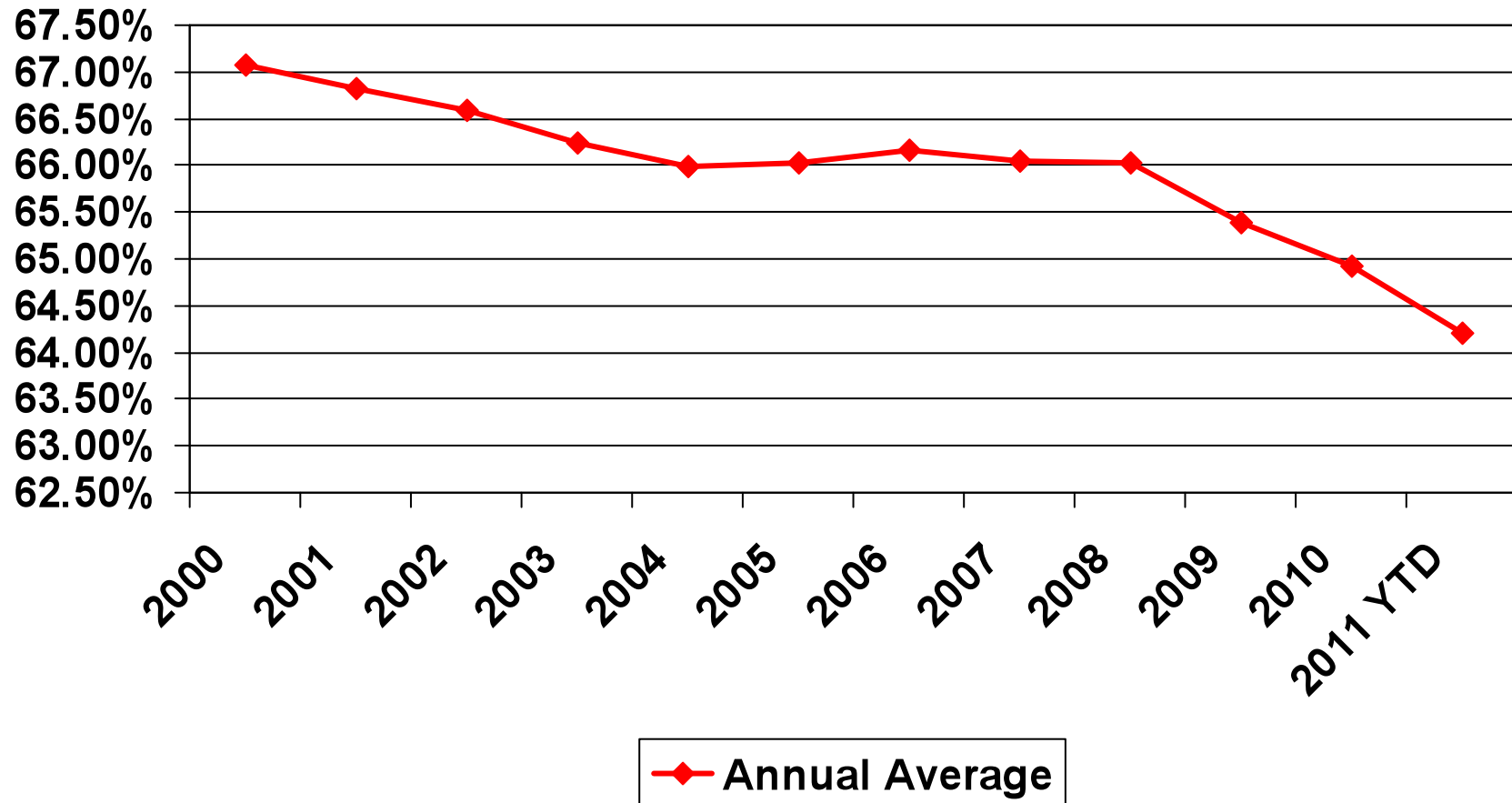
# The Jobs Deficit: Long Term Problems I

- The jobs deficit in the US is often thought of as a product of the Great Recession – however it is actually much longer term
  - Over the past 35 years, the US economy has:
    - Failed to create sufficient jobs and
    - Failed to create jobs provide a livelihood for workers and their dependents
- Long term job creation failure of US economy
  - 1945 – 1975 there were 75 months when the official unemployment rate was <4% (total of 360 months)
  - 1976 – 2010 there were only 5 months when the unemployment rate was <4% (total of 420 months)
  - Prior to 1980, the average length of time for the number of jobs to return to the pre-recession level was 9 months (12 months the longest)
    - After the 1990 downturn it took 23 months to do so, and after the 2000-01 recession it took 39 months
    - We are now 19 months beyond the end of the Great Recession and are still down more than 6 million jobs compared to pre-recession levels

# The Jobs Deficit: Long Term Problems II

- US Labor force participation rate has been declining
  - Did not recover to pre-recession levels after the 2000 recession
  - US differs on this measure from experience of most other advanced capitalist countries
- Long term (>26 weeks) share of unemployed has been rising
  - In 1980 recession's 10% unemployment rate only 1 in 4 long term
  - Great Recession: >46% are long term unemployed
- US private economy failing to produce jobs at the rate needed, much less good jobs

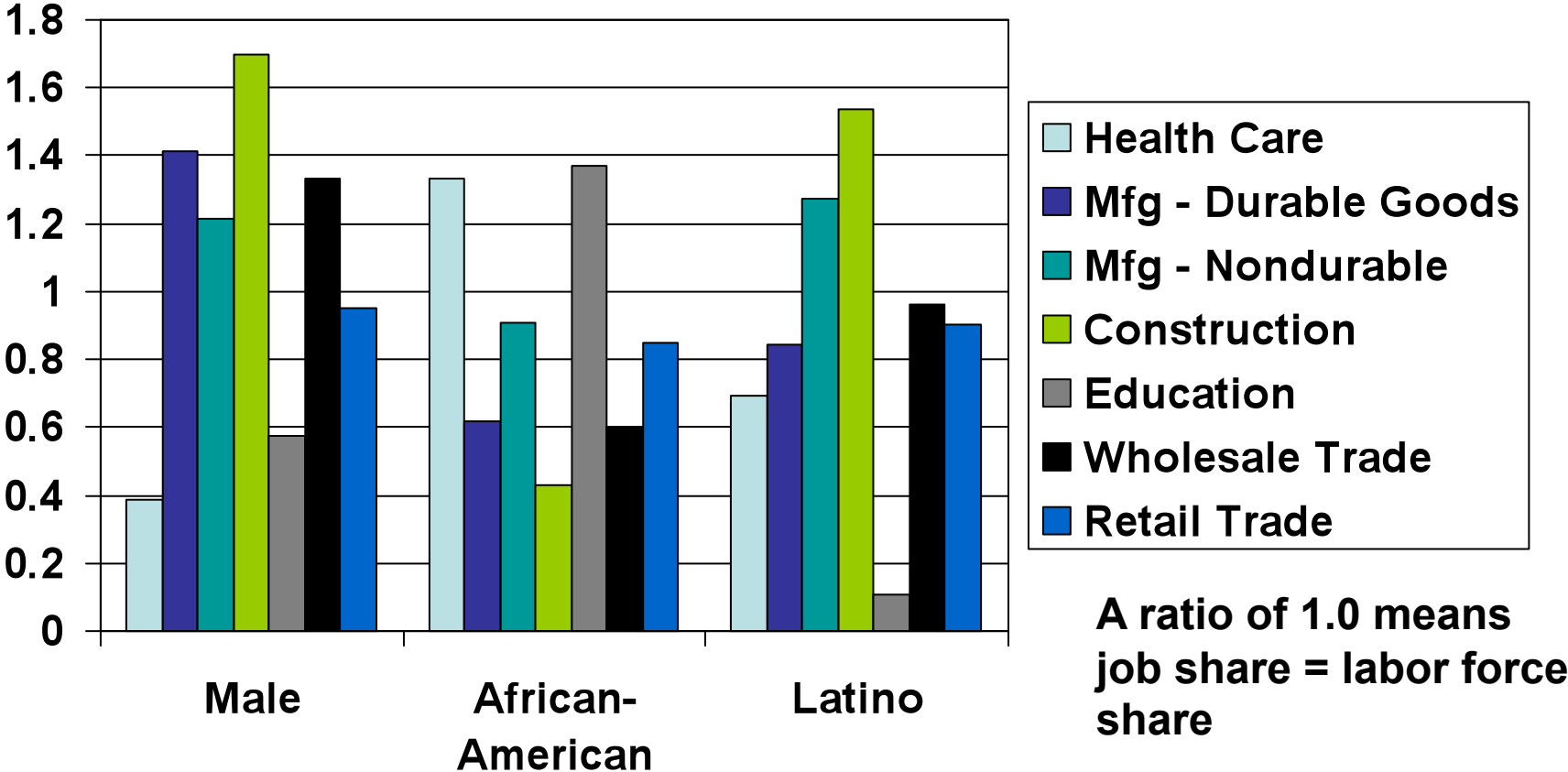
# US Labor Force Participation, 2000 – 2011 YTD (16+ years)



## II: Labor Force Segmentation: Unequal Access to Good Jobs

- Jobs that are generated are not allocated randomly across the different strata of the U.S. labor force
  - Evident from income distribution (full time wkrs only)
    - 2010 white male/white female median income ratio: 1.24
    - 2010 white male/black male median income ratio: 1.34
    - 2010 white male/Hispanic male median income ratio: 1.52
    - 2010 black male/black female median income ratio: 1.07
    - 2010 Hispanic male/Hispanic female median income ratio: 1.10
  - Evident from occupational distribution

# Labor Force Segmentation, 2009: Job Share/Labor Force Share



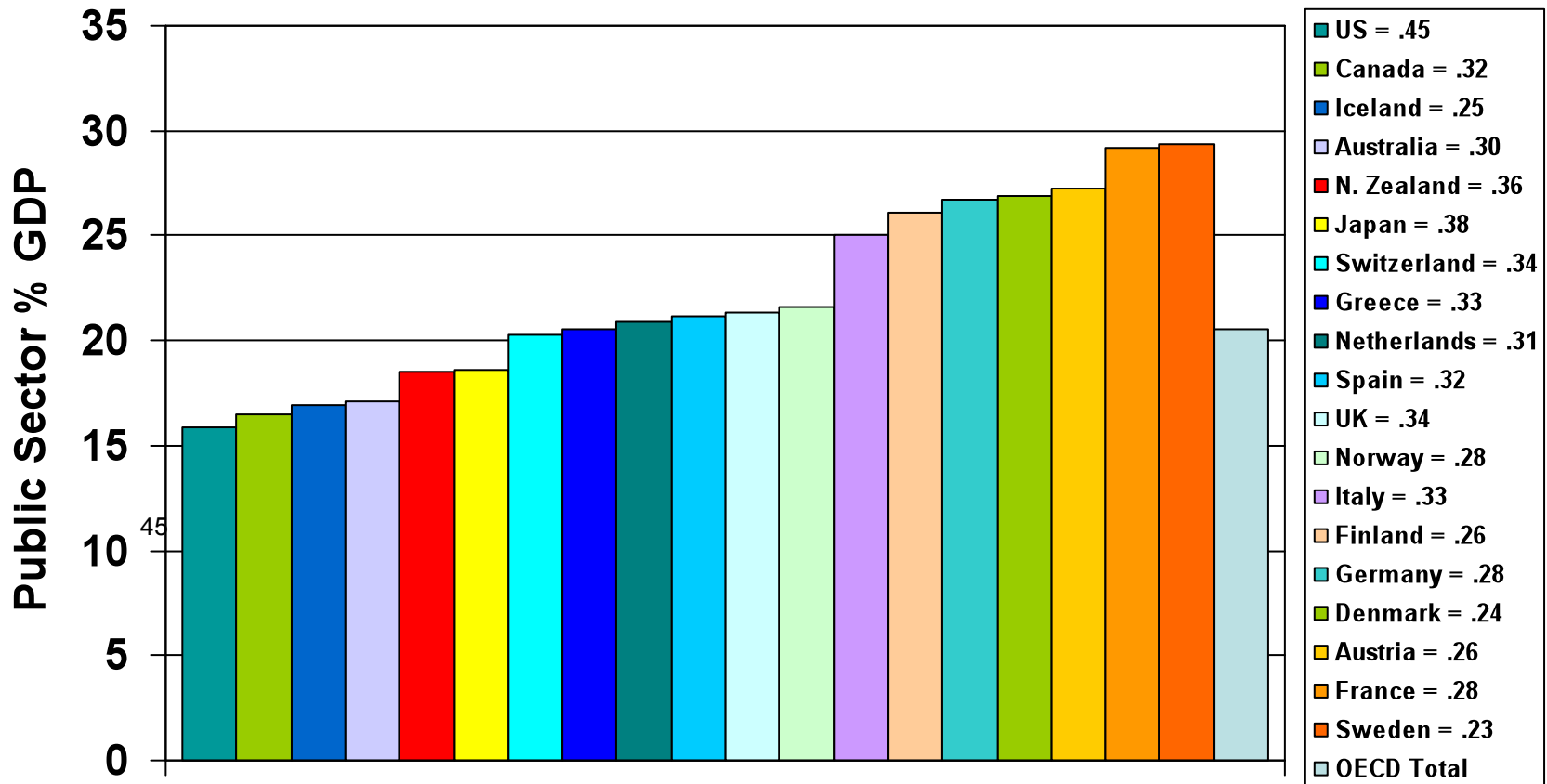
# III: There Is Useful Work To Be Done

- Unemployment is not because of a lack of economically and socially useful work to be done
  - One example: we need to new upgrade and/or replace much of existing built environment
    - This includes 24 billion sq ft of building stock in hospitals, healthcare, education and government buildings that could be **weatherized** (about 20 percent of all US building stock).
  - We need to replace and renew much of the work done by the CCC and similar programs in our parks and recreational areas
  - We have a deficit in the provision of care for both the young and the old
    - US is virtually alone making caring for loved ones a primarily or exclusively private effort

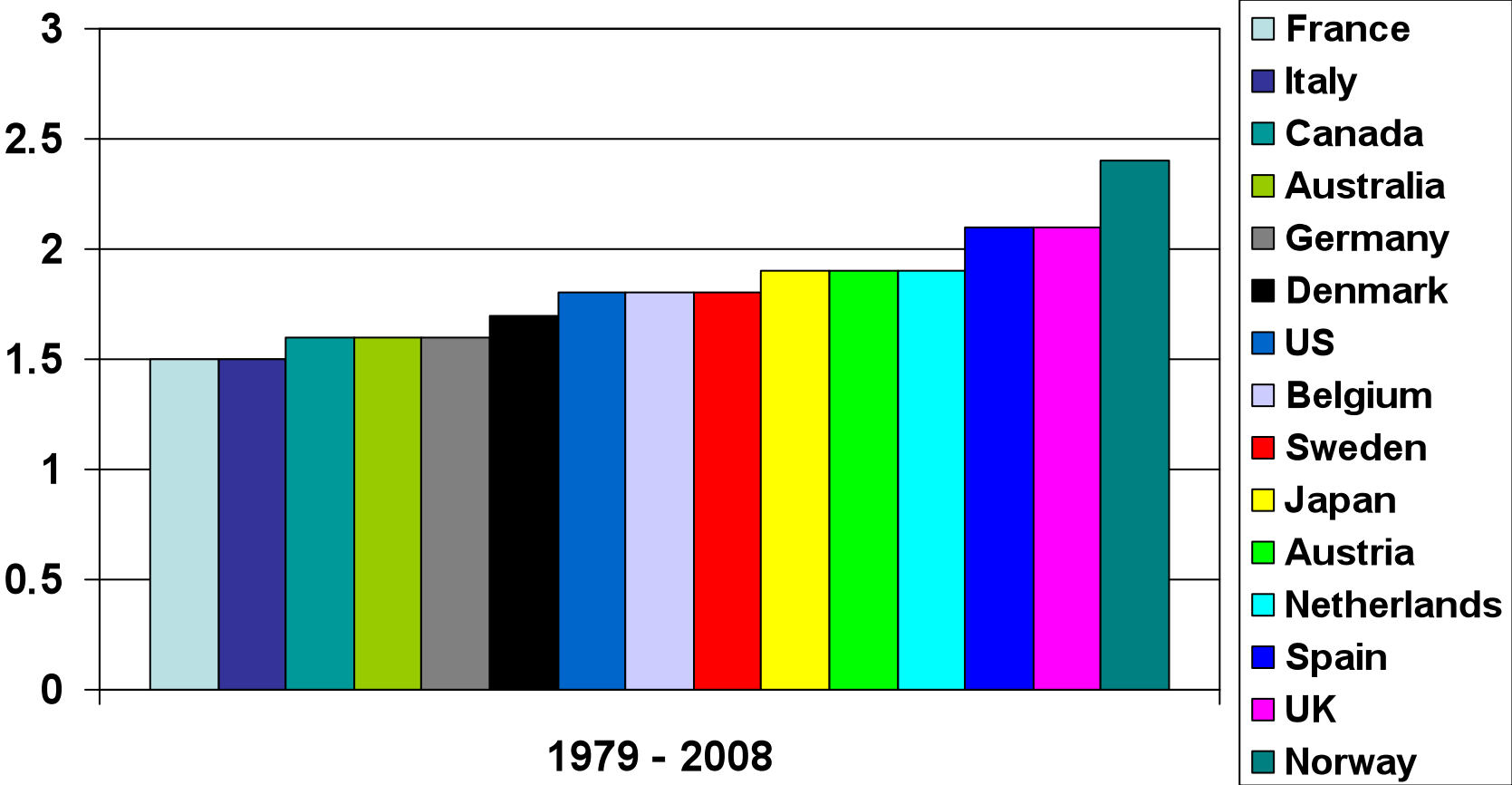
# IV & V: The Role of Government

- Failure of the private sector to create sufficient jobs and to allocate good jobs across segmented labor force leaves government as the alternative
  - The primary criterion of judging an economy should be its ability to provide living wage jobs for all who are willing and able to work
- Failure is long term – implies government job creation must also be long term
  - CPEG's program not temporary, short term or make work jobs
  - Size and role of US public sector would increase
    - US public sector small by international standards
  - Smaller public sector goes along with the greater inequality in income distribution in the US when compared with other advanced capitalist societies
- Smaller public sector/greater reliance on private sector has not produced superior rates of economic growth for the US

# Public Sector % of GDP and Gini Index, OECD Countries



# Average annual GDP Growth per Capita, 1979 - 2008



# VI: Jobs Program as Redistributive Policy

- “Never let a serious crisis go to waste”
- A jobs program sufficient to respond to the Great Recession should restructure the US political economy
  - Obvious in extending access to the “good jobs” a program should create: the output side
  - Of equal importance, a jobs program should be funded by sectors of the political economy that have benefitted from the economic growth and income distribution trends of recent decades: the input (who pay) side
- This jobs deficit highlights the need for new political and economic policies and programs

# Sizing CPEG's Jobs Program

- In calculating the number of jobs needed we looked at:
  - Numbers of un- and under-employed
  - Rate of growth in labor force
  - Projections of jobs created by the private sector
    - These projections developed in 2008 (many use longer time periods)
  - Potential loss of low wage private sector because of wage level we propose
- How many jobs: 4 million/yr over each of the next 5 years
  - Private sector projected to create 1.5 – 1.6 million jobs/yr (2008 – 2013)
    - We projected a 1 million/yr job loss in private sector due to wage and working conditions competition from our jobs program
  - Therefore need to create 3.5 million jobs/year from direct or indirect government action to get to our 4 million/yr job creation target
    - This is a relatively optimistic scenario – it assumes private sector job creation as projected above
    - Note, however, that the private sector has fallen short of the 1.5 – 1.6 million jobs/yr in both 2009 and 2010

# What Jobs Should Be Created?

- Three criteria to consider
  - Labor force segmentation: need to reach all segments
  - What should an economic growth policy emphasize?
  - Where are jobs being lost in Great Recession?
- Jobs should be created across three different sectors
  - Jobs to meet the social investment deficit - traditional infrastructure: roads, bridges, also schools and health facilities
    - Much of this would be publicly funded but contracted to private sector
    - Construction accounts for almost 25% of total job loss, 12/07 – 4/10
  - Jobs to meet the social service deficit
    - Teachers & teachers aides
    - Nurses & CNAs
    - Elder and child care workers
      - Most of these jobs would be direct government employment, i.e., an expansion of the public sector
      - In a segmented labor force this area of job creation would initially draw in disproportionately women and minorities
  - Forward looking Industrial policy focus
    - Jobs in green technologies of the future, e.g., light rail, alternative energy production and distribution
      - Probably a combination of contracting and direct employment altho the latter may be essential to get this up and running

# A Digression: Industrial Policy

- US political and economic elites generally dismiss the idea of an industrial policy
  - Markets know best how to pick winners
  - Markets are best able to shift gears, to recognize early the new leading industries
- Of course, this ignores the experience of several countries – Japan, China, Scandinavia
- It is also misleading – we have had an industrial policy for the past 20 -35 years: the development and expansion of finance and financial services
  - Manufacturing left to down size and outsource
- How has this worked?
  - Pretty well for finance and financial employees: profits of financial firms rose from their long term share of 20 – 22% to almost 45% in 2005
  - Financial employment became increasingly rewarding – average wage almost double that of the economy as a whole vs. a long standing premium of perhaps 20%
  - And, of course, we were able to export part of our economic crisis to the rest of the world
- Nonetheless, I think we can agree that the overall balance sheet of this industrial policy has been negative
  - Current “Great Recession” is not the first crisis that was created by the financial sector: LTCM, S&Ls, Asian Tigers, etc. – but where were the financial crises of 1940 – 1975?

# What Kind of Jobs Should Be Created - Good Jobs

- What do we mean by Good Jobs?
- Wage and salary level is probably the first criterion that comes to mind – **living wage jobs**
  - We designed the program – and the cost calculations I'll show soon – at the median salary level in 4Q10: \$18.75/hr or \$39,000/yr
    - However, the program is designed not just to generate jobs for those who have become unemployed – draw into the labor many of the long term unemployed/never employed
      - Therefore “training ramps” with an initial wage at \$11.75/hr (breaking point between poverty and non-poverty wage)

# What Else Do Good Jobs Offer?

- Good jobs are also those that :
  - Provide some level of security against unexpected catastrophes and
  - Some say in how the work is organized
    - All jobs under this program shall have access to the public pension program: social security
    - All workers employed under this jobs program shall have the right to associate together to articulate their needs in whatever organizational form they choose – (probably unions)
- Because this program is long term, these jobs must also establish possible career ladders
  - Long term, not temporary jobs

# The Cost of the Program

- There are three cost components that need to be considered
  - Wage levels
    - \$18.75/hr + training wage of \$11.75/hr
      - \$117.5 billion in year 1 up to \$127 billion by year 5
  - Overhead/administrative costs
    - 5% overhead costs (higher than Social Security)
  - Wages above \$18.50 for supervisory labor
    - Added 30% premium – less than private sector but goal is redistributive
- Total annual cost varies from \$158.6 billion in yr 1 up to \$171.5/ cohort in yr 5 or \$860 billion total
  - Remember the public funding is ongoing
  - \$860 billion is approximately 6% of 2009 US GDP
- Offsets we did not include: UI, taxes paid, etc
  - These returns to the jobs program would reduce the above cost
  - According to Robt Pollin (PERI) each 1% decline in unemployment cuts federal spending/increases federal tax receipts by about \$90 billion

# Considering the Cost of the CPEG Jobs Program

- We first came up with our cost estimate of \$860 billion by the 5<sup>th</sup> year in August 2008;
- We looked at each other: – wow! That’s a lot of money
  - Two months later we discovered that it really isn’t a lot of money
- Nonetheless, we set out to decide how to pay for the program – keeping in mind our 6<sup>th</sup> principle: redistribution

# Paying for the CPEG Jobs Program

Reporter: Why do you rob banks?

Willie (“The Actor”) Sutton:  
Because that’s where the money is.

# Can We Afford the Economic Right of a Living Wage Job for All?

- Many pundits as well as political and economic leaders are anxious to convince us that the fiscal cupboard is bare – we can't afford significant “domestic” social or economic programs
  - In fact, there is a growing chorus that says we must reduce our expectations, we must cut back
- We could, of course, seek to finance our Right to a Living Wage Job by deficits
  - Moody's has recently said that the US should “watch out” because our federal budget deficit may cause markets to refuse to buy US govt. debt – and of course they were so on target with their ratings on securitized mortgages
- We (CPEG) don't believe the deficit scare stories
- However, we do believe in the Willie Sutton philosophy – go “where the money is”
- This approach is integral to our 6<sup>th</sup> point, that, just as a Living Wage Jobs for All Right must redistribute access to good jobs, so must the financing of the program be redistributive in its impact
- So, how can we pay for it – let's be “responsible” policy wonks

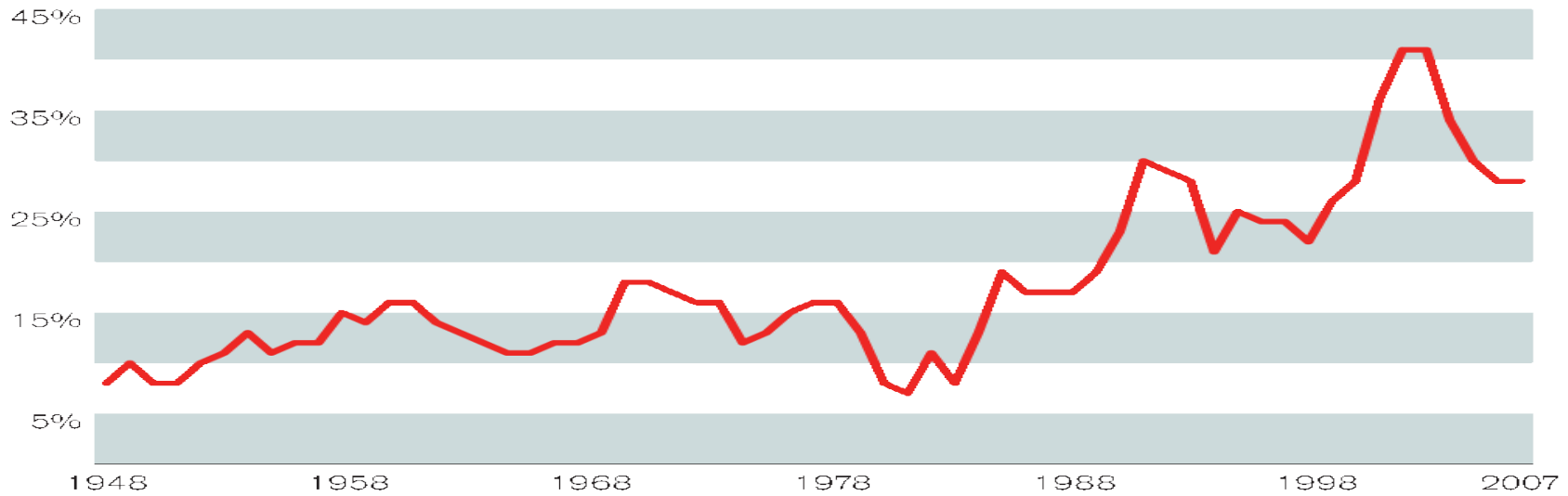
# “When the capital development of a country becomes a byproduct of the activities of a casino, the job is likely to be ill-done.” - Keynes

- First where is the money: finance and the financial sector
  - The rise of finance illustrated by the share of total profits accruing to financial sector as well as the increased salary level in finance
  - Another measure of the shift in our political economy: in 2007 US consumers spent less on new automobiles than on investment counseling and brokerage services – in 1979 we spent ten times as much on the former as on the latter
- Keynes once urged a tax on the trading of stock to reduce the attraction of the casino
- In 1973 James Tobin (Nobel Prize economist) argued for a tax on currency the trading
  - Argued that the rapid, large movements in the markets for currency are destabilizing and do not represent actual economic changes
  - In 1989, two economists, following Keynes and Tobin, wrote a paper advocating a small tax on the trading of financial assets, i.e., stocks, bonds, currencies and derivatives thereon
    - Larry and Victoria Summers were following in the footsteps of Keynes (tax stock trading) and James Tobin (tax currency trading)
      - Very good job in anticipating and responding to possible criticisms
  - Stiglitz, Krugman and others have urged such a tax
  - In the 111<sup>th</sup> Congress there were two bills (HR 4191 and S 2927) that contained weak versions of the tax

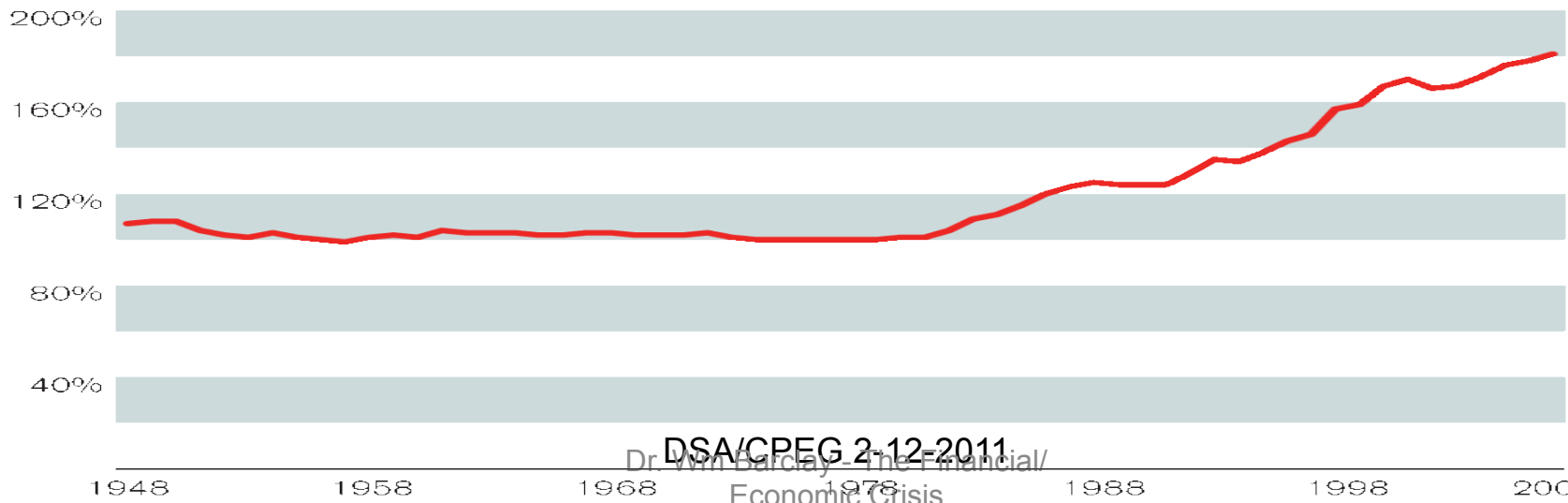
# Where the Money Is

- At the time the Summers wrote, total stock trading value in the US was about \$2 trillion
  - A lot of in money? Well, in 2008 the total stock traded value in the US was almost \$70 trillion – what else has increased 35 fold in 20 years?
    - Total US equity market cap has increased only 4 fold (6 fold if we take 2007)
  - In 2008 equity-based derivatives trading represented another \$86 trillion in notional (underlying) value of trading
- In addition there is trading in debt and debt derivatives as well as currency and currency derivatives
  - These markets are similar in size to those for stocks and stock derivatives
- Lord Turner (UK's senior financial regulator): much of this trading is “socially useless”
- A tax on the trading of financial assets (FTT) would tap this “socially useless” activity
  - The UK has long had a modest FTT - The Robin Hood Tax movement in the UK is urging a more robust version
  - Hong Kong has recently imposed an FTT – raises 1.3 – 2% of HKL GDP (equivalent to \$175 – 280 billion n US – and this is on stock only)
  - International working group on FTT:
    - 1000 economists signed letter to Gates Commission
    - France to push FTT at G20
    - German budget includes some FTT revenue

**FINANCIAL-INDUSTRY PROFITS  
AS A SHARE OF U.S. BUSINESS PROFITS**



**PAY PER WORKER IN THE FINANCIAL SECTOR AS  
A PERCENTAGE OF AVERAGE U.S. COMPENSATION**



# An FTT: How Would It Work and How Much Revenue Could it Raise?

- Issues to consider
  - Financial assets traded in different markets, e.g. on and off exchange
  - Financial assets trade in different forms, e.g. futures and options
  - No market or instrument should be advantaged/disadvantaged by an FTT
  - We used fairly standard levies
    - \$1 fee (tax) on every \$400 of stock traded (0.25%/side)
    - \$1 fee (tax) on every \$800 of currency, debt, and all derivative notional value traded (0.125%/side) (see *Dissent* Summer 2010 article – out soon; or go to [www.CPEGonline.org](http://www.CPEGonline.org)) for more details
- Applying these rates to the 2005 – 2009 period, an FTT would have raised between \$750 billion - \$1.3 trillion each year
  - We just paid for the Economic Right of a Living Wage Job for All

# What Impact Might a Comprehensive FTT Have?

- What impact – would an FTT undermine US competitiveness?
- One answer may be “so what” – finance and financial trading got us into this mess so the less of it, the better
  - I have some sympathy with this position but not completely (maybe 22 years in finance biases me?)
  - However, if this very small tax did the following, I think it would be a good outcome
    - Reduced the role of finance by reducing the level of trading – very, very little of the trading that occurs has anything to do with either capital raising or hedging
      - If the average cost of trading a share were to double because of an FTT and the result was a halving of trading volume, traders would pay the same total amt
    - Reduce the incomes accruing to employees in the financial sector and thus provide less incentive for the best of our young people to enter finance and instead consider other careers – this happened in the 1930s -1940s
    - Some clever finance people may chose to leave the US and work elsewhere
      - although elsewhere is getting harder for financial engineers/quants to find
      - anyway, don't let the door hit you on the ass on the way out

# Who Would Pay an FTT?

- Obviously people/institutions who trade – who are these?
  - Day traders: what social benefit arises from trading for less than 0.25% profit?
  - Hedge funds and proprietary trading desks of investment banks
  - The 10 – 15% of the upper income US population that own most of the stocks held by individuals
    - Median size of stock holdings exceeds \$20,000 only among the top 10% of households by income
  - Anyone who has a 401(k) – choose low trading funds – you'll be better off anyway
- Would an FTT at this level make the US an outlier in tax revenue/GDP ratio?

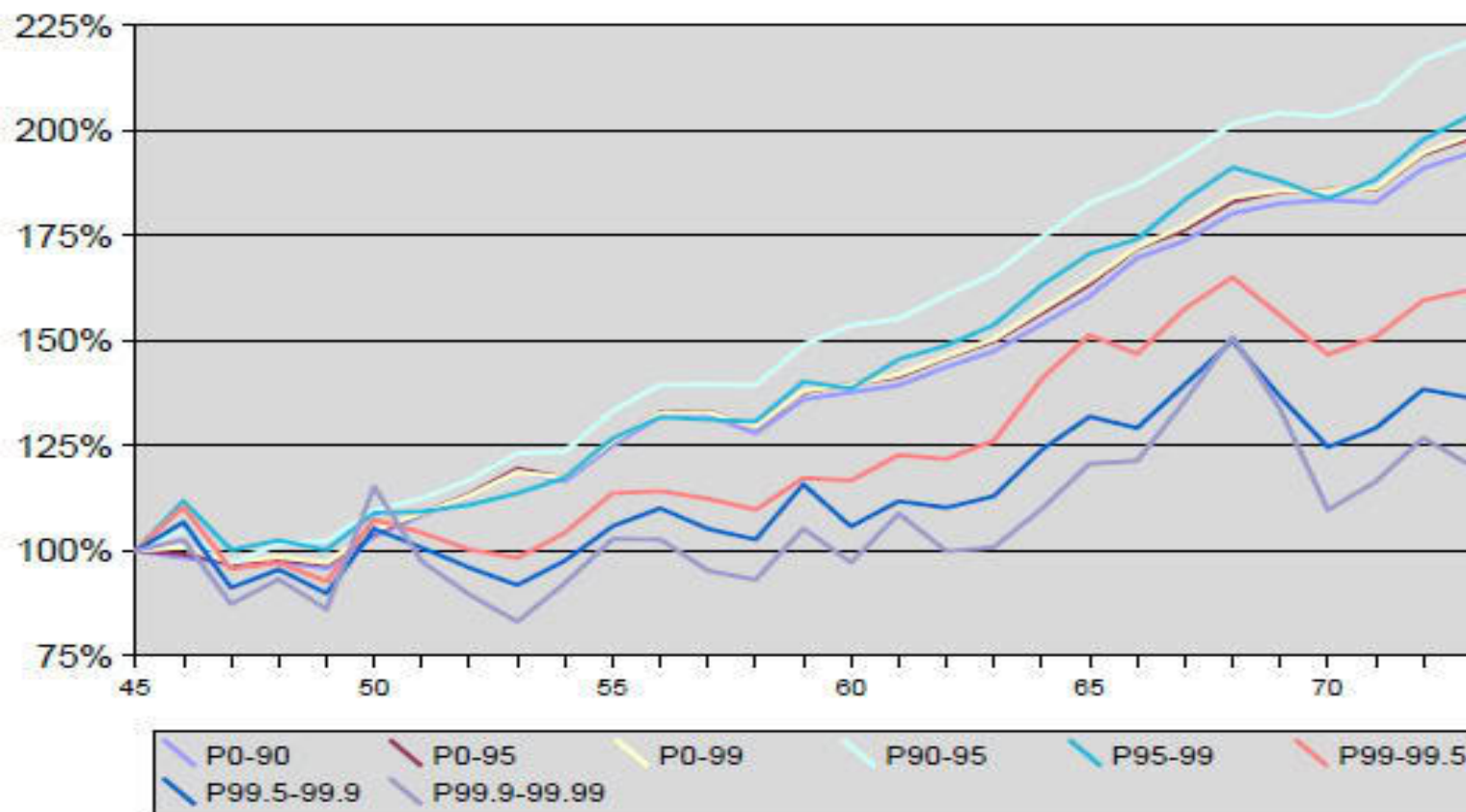
# Where the Money Is: II

- The past 35 years have seen an unprecedented upward redistribution of income in the US
  - Top 1% of households have tripled their share – from 8 – 8.5% in mid 1970s to 22 – 24% today
- This has been accompanied by a dramatic reduction in the taxes these (and other upper income households) pay
  - Top marginal federal income tax rate in 1975 was 70% vs today's 35% (lowest rate dropped only from 14% to 10%)



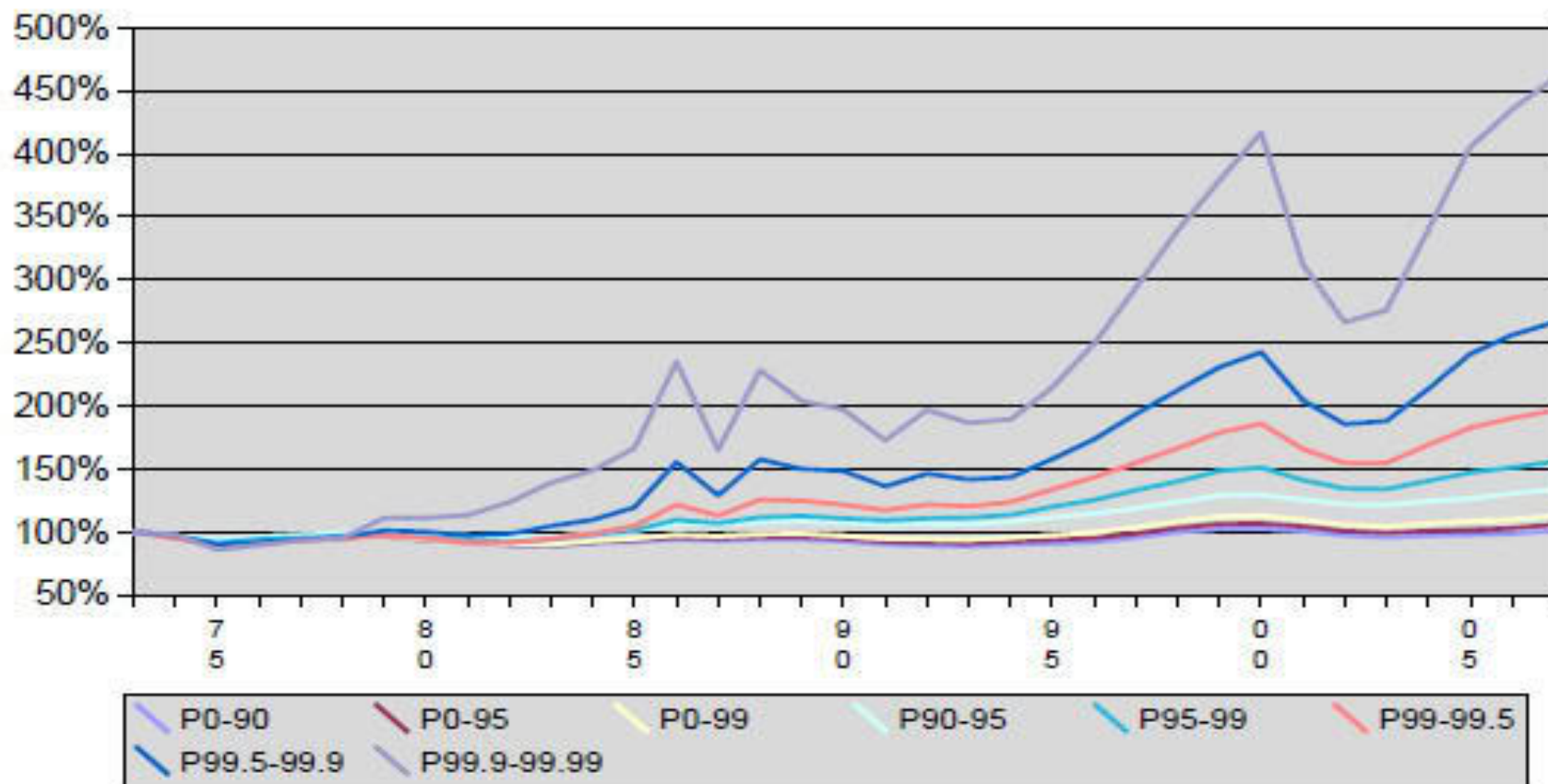
# Income Share Gains, 1945 - 1973

## Income Shares-Avg As % Of 1945, To 1973



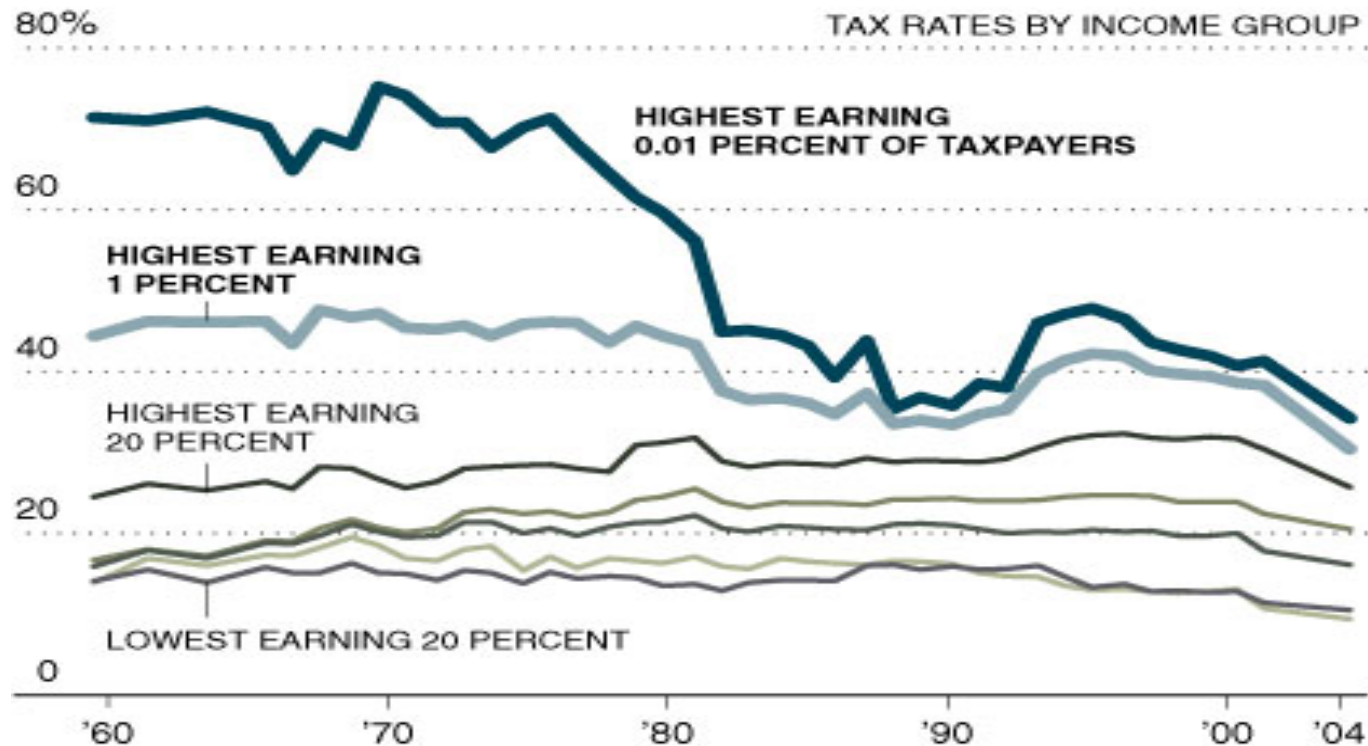
# Income Share Gains, 1973 - 2007

## Income Shares-Avg As % Of 1973



## Shifting the Tax Burden

Compared with the 1960s, the highest and the lowest earners pay a smaller share of their income in federal taxes, while those in the middle pay somewhat more.

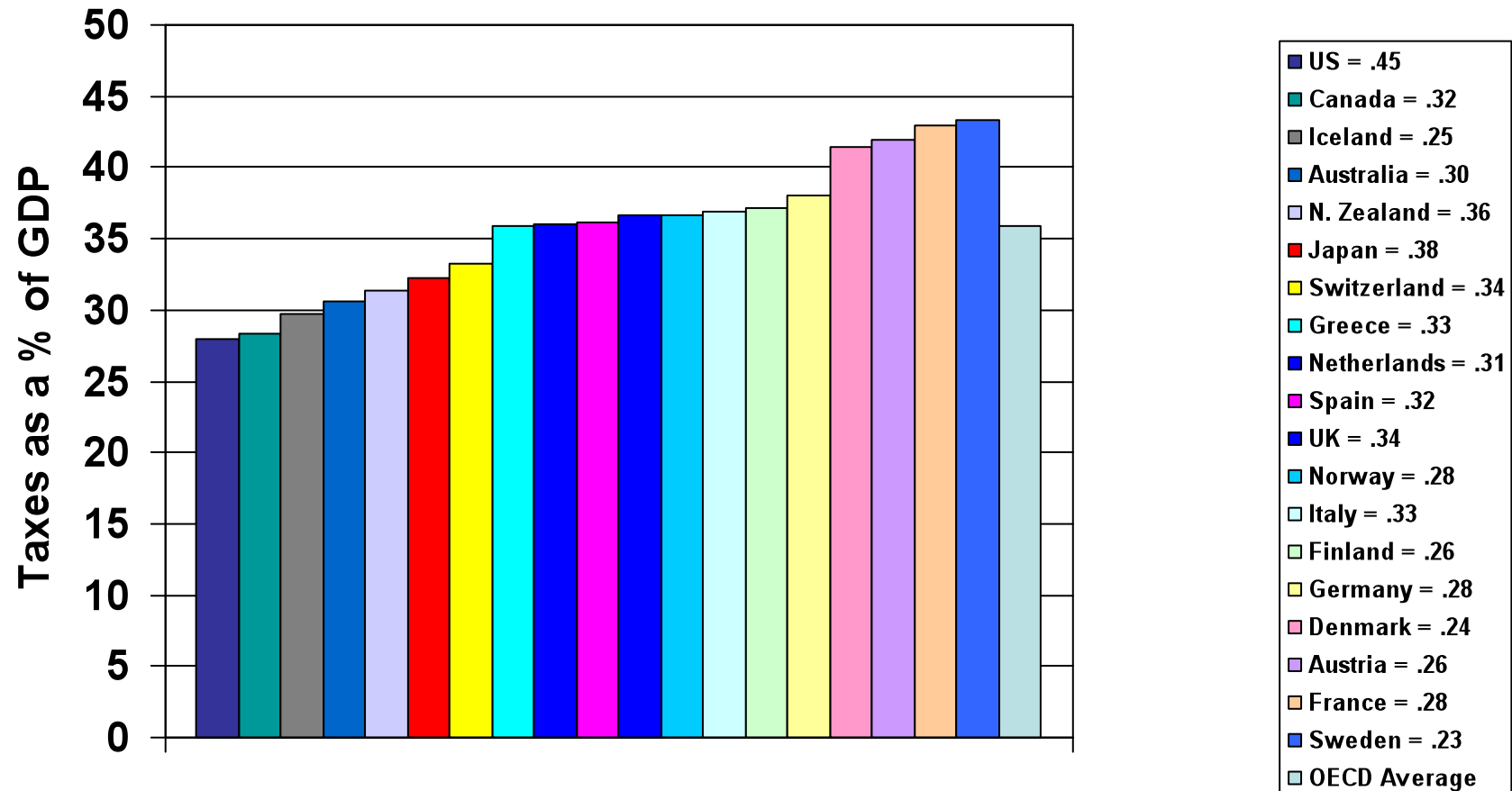


Numbers include income taxes, capital gains taxes, payroll taxes, estate taxes, gift taxes and corporate taxes (which are effectively paid by stockholders). 2004 tax rates are based on 2004 tax law applied to 2000 income adjusted for income growth.

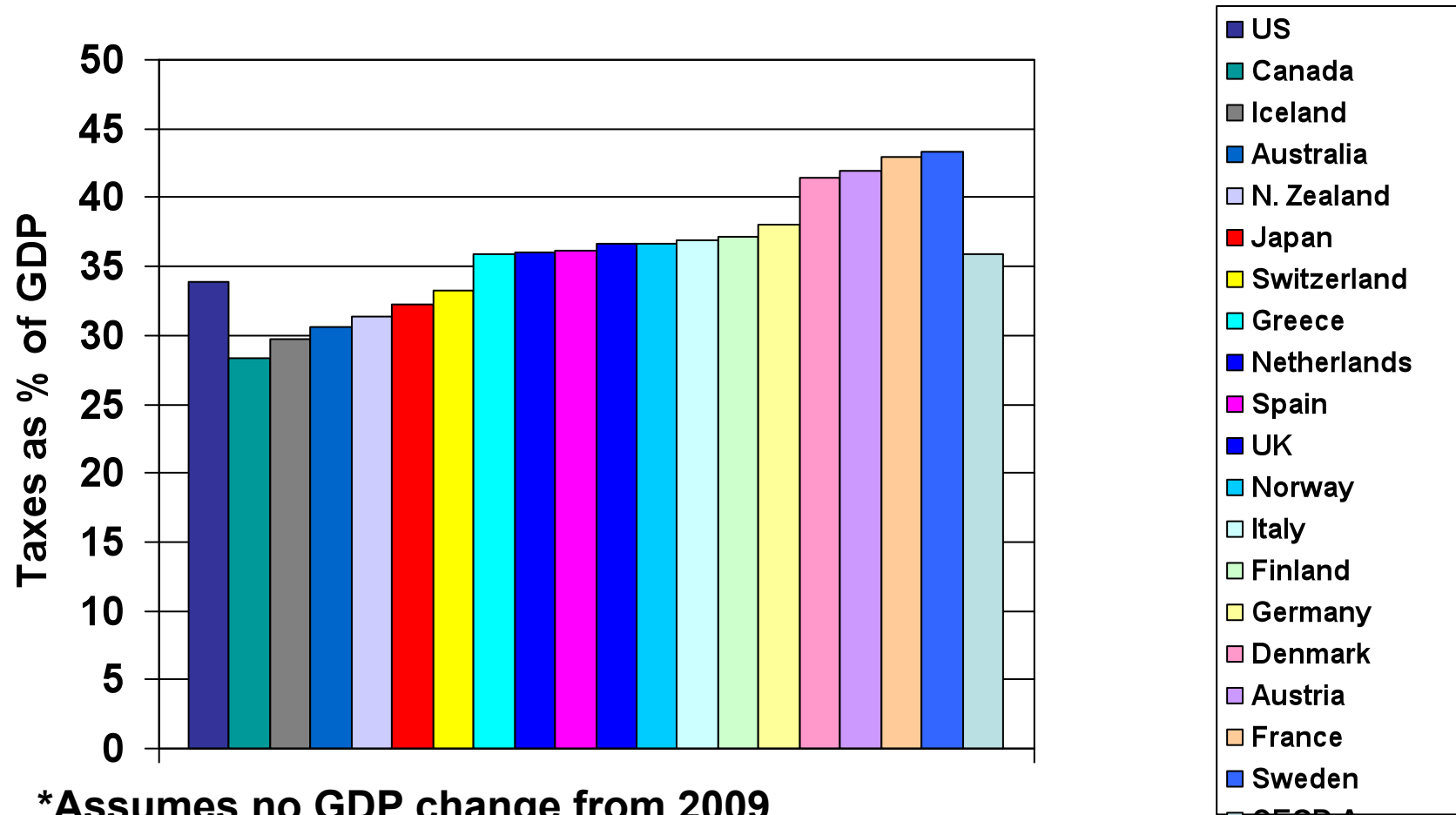
Source: Thomas Piketty and Emmanuel Saez

THE NEW YORK TIMES

# Tax Revenue as % GDP & Gini Index, OECD Countries (current)



# Tax Revenue as % GDP – CPEG Jobs Program fully in place and Funded\*



# Summary

- The most critical deficit facing the US is the lack of jobs
- Curing this deficit requires a federally funded program to create at least 20 million jobs over the next 5 years
- This can be paid for – and the US political economy rebalanced – by a tax on the trading of financial assets and on high incomes